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FISCAL IMPACT STATEMENT

LS 6748

BILL NUMBER: SB 300

NOTE PREPARED: Jan 25, 2007

BILL AMENDED:

SUBJECT: Local option property tax replacements.

FIRST AUTHOR: Sen. Mrvan

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes counties, cities, and towns to adopt local sales taxes, fuel taxes, alcoholic beverage taxes, tobacco taxes, and firework taxes.

The bill establishes the county tax council, which consists of the county fiscal body and the fiscal bodies of each city and town located in the county. It authorizes the county tax council to adopt local taxes and provides for revenue from the county tax council's taxes to be distributed to each of the units represented on the county tax council.

The bill provides that the local taxes authorized are in addition to other taxes authorized under Indiana law and it provides that the authorized taxes shall be used for property tax replacement.

Effective Date: July 1, 2007.

Explanation of State Expenditures: Adoption of a local option tax, under the bill, by a county, city, or town would have an indeterminable and potentially significant administrative impact on the Department of State Revenue (DOR). The impact on the Department would ultimately depend upon the number of counties imposing a local tax under this bill.

The state pays Property Tax Replacement Credits (PTRC) in the amount of 20% of the portion of all civil taxing unit operating levies that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. If gross levies are reduced as a result of replacement revenue generated by these local taxes, then the state's liability for these credits would be reduced. The amount of state savings

would depend on the amount of local revenue raised and corresponding reduction in local levies.

Explanation of State Revenues: The bill could potentially cause a reduction in state revenues. Whenever a tax rate is increased, there is the possibility of a decline in overall sales of the goods being taxed. The impact on state revenues would depend upon the number of counties imposing a local tax, and the local tax rate imposed under the bill.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under this bill, a County Tax Council would be established in each county. The fiscal bodies of the county and the cities and towns within the county would comprise the membership of the tax council. Each member would get a number of votes proportioned on the population of the city, town, or unincorporated area of the county.

The tax council would have the authority under this proposal to impose the following taxes at the following tax rates within the entire county. In addition, a city, town or county unit could individually impose the same taxes, but only within that unit's boundaries. However, the county tax council and a taxing unit would not be permitted to both adopt the same tax in the same year.

Proposed Local Tax	Maximum Rate Under Bill	Basis
Gross Retail	1%	Gross retail sales
Fuel	1%	Sales of gasoline or special fuel, before other state or federal taxes are added
Alcoholic Beverage	2%	Retail sales, before other state taxes are added, of alcoholic beverages sold by a retail merchant for consumption either on or off the merchant's premises
Tobacco	2%	Retail sales of cigarettes, tobacco products, or smoking paraphernalia before other state taxes are added
Fireworks	2%	Retail sales of fireworks

The bill would have an indeterminable impact on local tax revenues, and would depend on local action.

Tax Estimates:

The following maximum revenue estimates assume that all county tax councils would impose each of these taxes at the maximum rate. Keep in mind that the individual taxing units could also impose these taxes, thereby doubling the possible revenue.

Sales Taxes: If the tax council in every county were to adopt a local option sales tax at the maximum rate of 1%, the projected revenue raised in FY 2007 is estimated at \$940 M statewide. For CY 2008, the estimate is \$962 M.

Fuel Taxes: If every county tax council were to adopt a local option motor fuel tax, a one cent fuel tax rate is estimated to raise \$33.4 M statewide in CY 2008.

Fireworks Taxes: The new 5% fireworks safety fee, under HEA1099-2006, went into effect on June 1, 2006. Collections of the 5% fee from July through December, 2006, were \$2.275 M. Data are not available for an entire year of sales under the current fireworks law in order to estimate potential revenue from a local option tax.

Cigarette & Alcoholic Beverage Taxes: As a comparison, the following table illustrates the estimated revenue impact to raise these tax rates at the state level by \$0.01 and \$0.02:

FY 2008 Revenue impact to raise the taxes listed by \$0.01 and \$0.02					
Tax	Current Rate	Rate after \$0.01 Increase	Revenue Raised (in millions)	Rate after \$0.02 Increase	Revenue Raised (in millions)
Cigarette	\$0.555	\$0.565	\$5.1	\$0.575	\$10.2
Beer	\$0.115	\$0.125	\$1.2	\$0.135	\$2.4
Liquor	\$2.680	\$2.690	\$0.1	\$2.700	\$0.2
Wine	\$0.470	\$0.480	\$0.1	\$0.490	\$0.2

This table is provided to give a range of possible revenues generated by allowing these local option taxes. The maximum rate allowed by the bill on cigarettes and alcoholic beverages is 2%. Assuming the average price of a pack of 20 cigarettes is \$2.50, before other state taxes are added, the maximum tax which could be raised would be approximately \$0.05 per pack. Due to the high degree of variance in alcoholic beverage prices an estimate of the maximum rate, in cents per gallon, is indeterminable.

Revenue Distribution: Under the bill, revenues from the various local taxes that are imposed by the county tax council would be distributed to the county, cities, and towns proportionally on the basis of those units' maximum levies. Revenues from taxes imposed by a single taxing unit would be distributed only to that unit.

Gross Property Tax Levies: Gross property tax levies totaled \$1,517 M for counties and \$1,265 M for cities and towns in CY 2006. Net property tax levies (after PTRC) totaled \$1,293 M for counties and \$1,085 M for cities and towns. Under the bill, the new revenues could replace a portion of the taxing unit gross property tax levy. The Department of Local Government Finance would be required to reduce a unit's maximum permissible property tax levy by the amount of revenue received under this bill.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: Counties, cities, towns.

Information Sources: *State Revenue Forecast*; Local Government Database; *Monthly Report of Collections*, Indiana Department of Revenue.

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